

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER

VIVIAN, LOUISIANA

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2002

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

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September 11, 2002

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana

We have audited the accompanying proprietary fund balance sheets of North Caddo Hospital Service District, d/b/a North Caddo Medical Center, component unit of the Caddo Parish Commission, at June 30, 2002 and June 30, 2001 and the related statements of operations and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Caddo Hospital Service District, d/b/a North Caddo Medical Center at June 30, 2002 and June 30, 2001 and the results of its operations, changes in fund balances, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 11, 2002 on our consideration of North Caddo Hospital Service District, d/b/a North Caddo Medical Center's internal control and its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.


Cole, Evans & Peterson

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTERBALANCE SHEETS-PROPRIETARY FUNDAT JUNE 30, 2002 AND JUNE 30, 2001

	Enterprise Fund June 30	
<u>A S S E T S</u>	<u>2002</u>	<u>2001</u>
<u>Current Assets:</u>		
Cash and Cash Equivalents (Note 4)	822,954	931,492
Certificates of Deposit (More than Three Month Maturities) (Note 4)		200,000
Accounts Receivable from Patient Services-Net of Estimated Allowances and Uncollectible Accounts (Note 3)	1,123,746	1,078,965
Interest Receivable	825	703
Inventories-Drugs and Supplies	118,375	115,659
Prepaid Expenses	<u>31,410</u>	<u>33,977</u>
Total Current Assets	2,097,310	2,360,796
<u>Fixed Assets: (Note 5)</u>		
Land	111,243	95,367
Land Improvements	173,837	173,837
Buildings and Building Improvements	1,903,070	1,903,070
Equipment	2,249,758	2,069,681
Equipment Held Under Capital Leases (Note 6)	<u>291,280</u>	<u>308,464</u>
	4,729,188	4,550,419
<u>Less-Accumulated Depreciation</u>	<u>3,249,179</u>	<u>3,071,020</u>
Net Fixed Assets	1,480,009	1,479,399
<u>Other Assets:</u>		
Assets Not in Service	63,502	
Unamortized Cost of Tax Election	<u>4,370</u>	<u>5,463</u>
Total Other Assets	<u>67,872</u>	<u>5,463</u>
Total Assets	<u>3,645,191</u>	<u>3,845,658</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

BALANCE SHEETS-PROPRIETARY FUND

AT JUNE 30, 2002 AND JUNE 30, 2001

	Enterprise Fund June 30	
	2002	2001
<u>LIABILITIES</u> <u>AND FUND BALANCE</u>		
<u>Current Liabilities:</u>		
Accounts Payable (Note 16)	216,575	163,753
Estimated Third-Party Payor Settlements (Note 3)	629,146	661,466
Accrued Salaries, Withholdings and Retirement	226,426	93,179
Accrued Employee Vacation Benefits	56,100	53,522
Accrued Interest Payable	244	632
Capital Lease Obligations-Current Portion (Note 6)	45,058	68,258
Total Current Liabilities	1,173,549	1,040,810
<u>Long-Term Liabilities:</u>		
Capital Lease Obligations (Note 6)	46,982	115,240
<u>Less-Current Portions</u>	<u>45,058</u>	<u>68,258</u>
Total Long-Term Liabilities	1,924	46,982
<u>Commitments and Contingent Liabilities (Note 7)</u>		
Total Liabilities	1,175,473	1,087,792
<u>Fund Balance:</u>		
Restricted	- 0 -	- 0 -
Unrestricted	2,469,718	2,757,866
Total Fund Balance	2,469,718	2,757,866
Total Liabilities and Fund Balance	3,645,191	3,845,658

The Accompanying Notes Are An Integral Part Of These Financial Statements

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

STATEMENTS OF OPERATIONS AND
CHANGES IN FUND BALANCES-PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001

	Enterprise Fund Year Ended June 30	
	<u>2002</u>	<u>2001</u>
<u>Operating Revenues:</u>		
Net Patient Revenues (Note 3)	6,129,868	4,961,270
Other Operating Revenue	<u>8,046</u>	<u>8,192</u>
Total Operating Revenues	6,137,914	4,969,462
<u>Operating Expenses:</u>		
Direct Departmental Expenses (Note 16)	3,722,841	3,218,471
Housekeeping	190,831	154,120
Maintenance and Utilities	139,547	132,011
Medical Records	137,244	102,841
General and Administrative (Notes 8, 9, 11, 15 and 16)	1,322,871	974,388
Bad Debts (Note 3)	818,500	587,774
Depreciation (Note 5)	250,109	272,951
Amortization	1,093	1,093
Interest Expense	<u>6,706</u>	<u>13,254</u>
Total Operating Expenses	<u>6,589,742</u>	<u>5,456,903</u>
<u>Operating (Loss)</u>	(451,828)	(487,441)
<u>Nonoperating Revenues:</u>		
Interest Income	21,960	53,583
Property Tax Revenues (Note 10)	132,120	161,591
Rent Income (Notes 13 and 16)	<u>9,600</u>	<u>9,600</u>
Total Nonoperating Revenues	<u>163,680</u>	<u>224,774</u>
<u>(Decrease) in Unrestricted Fund Balance</u>	(288,148)	(262,667)
<u>Unrestricted Fund Balance at Beginning of Year</u>	<u>2,757,866</u>	<u>3,020,533</u>
<u>Unrestricted Fund Balance at End of Year</u>	<u>2,469,718</u>	<u>2,757,866</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

STATEMENTS OF CASH FLOWS-PROPRIETARY FUND

FOR THE YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001

	Enterprise Fund Year Ended June 30	
	<u>2002</u>	<u>2001</u>
<u>Cash Flows from Operating Activities:</u>		
(Decrease) in Unrestricted Fund Balance (Exhibit B)	(288,148)	(262,667)
Reconciliation of (Decrease) in Unrestricted Fund Balance to Cash Flows from Operating Activities:		
Depreciation and Amortization	251,202	274,043
Interest Income on Investing Activities	(21,960)	(53,583)
Property Tax Revenues	(132,120)	(161,591)
Interest Expense on Financing Activities	6,706	13,254
Changes in Operating Assets and Liabilities:		
(Increase) in Accounts Receivable	(47,057)	(127,279)
Increase in Accounts Payable	158,603	58,802
Decrease (Increase) in Prepaid Expenses	2,567	(15,525)
Decrease (Increase) in Inventory	(2,716)	17,726
Net Cash (Used) by Operating Activities	(72,923)	(256,820)
<u>Cash Flows from Noncapital Financing Activities:</u>		
Property Tax Revenues Received	132,120	161,591
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Acquisition and Construction of Capital Assets	(314,221)	(142,707)
Principal Payments on Capital Leases	(68,258)	(59,903)
Interest Payments on Capital Leases	(7,094)	(12,866)
Net Cash (Used) by Capital and Related Financing Activities	(389,573)	(215,476)
<u>Cash Flows from Investing Activities:</u>		
Interest Income on Investments	21,838	53,734
Purchase of Certificates of Deposit		(200,000)
Redemption of Certificates of Deposit	200,000	500,000
Net Cash Provided by Investing Activities	221,838	353,734
<u>(Decrease) Increase in Cash and Cash Equivalents</u>	(108,538)	43,029
<u>Cash and Cash Equivalents at Beginning of Year</u>	931,492	888,463
<u>Cash and Cash Equivalents at End of Year</u>	822,954	931,492

The Accompanying Notes Are An Integral Part Of These Financial Statements

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements are prepared in conformity with generally accepted accounting principles. Application of those principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates. See Note 12 concerning significant estimates.

A summary of significant accounting policies follows:

Fund Types and Basis of Accounting

North Caddo Hospital Service District, d/b/a North Caddo Medical Center (The Medical Center) accounts for its financial position and results of operations in accordance with generally accepted accounting principles applicable to governmental units.

Given the nature of the Medical Center's activities, only one proprietary type fund, an enterprise fund, is maintained. The Medical Center conducts its activities on a fee for service basis in a manner similar to commercial enterprises that provide services to the public. Proprietary fund types are accounted for on the accrual basis.

Budgets and Budgetary Accounting

Under Louisiana law, hospital service districts are not required to operate under a formal budget. Accordingly, budgetary accounting is not presented in the financial statements.

Statement of Operations Classifications

Revenues and expenses deemed by management to be ongoing, major, or central to the provision of health care services are reported as components of operating income. Transactions that are peripheral or incidental to providing health care services are reported as nonoperating.

Patient Revenue and Accounts Receivable

Patient revenues are reported net of free services and contractual adjustments, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. See Note 3.

The Medical Center does not make its patient accounts receivable available for sale. Interest on unpaid balances is generally not charged. Allowances for bad debts are based on estimated percentages applied to receivables according to their age. Uncollectable balances are charged against the bad debt allowance at the point a debtor is known to be bankrupt or when all collection efforts have failed.

Fixed Assets and Depreciation

Fixed assets other than those held under capital leases are included at cost, or if donated, at fair value on the date of receipt. Depreciation is computed using the straight-line method over the assets' estimated useful lives. See Note 5.

Gains and losses on the disposal of fixed assets are considered incidental to the provision of health care services and, as such, are reported as nonoperating.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Leases and Amortization

Assets and liabilities under capital leases are recorded at the present value of the minimum lease payments. The assets are amortized over their related lease terms which approximate their estimated productive lives. Amortization of assets under capital leases is included in depreciation.

Inventories

Inventories are reported principally at cost using a first-in, first-out cost flow assumption.

Compensated Absences

The Medical Center's policy regarding employees' vacation pay provides that employees' earned and unused vacation benefits accumulate and vest. Therefore a liability is recorded for those unpaid benefits. The Medical Center does not provide any other compensated absences that accumulate and vest.

Advertising

Costs of advertising are expensed as incurred. See Note 11.

Income Taxes

As a component unit of the Caddo Parish Commission and the State of Louisiana (Note 2), the Hospital is exempt from federal and state income taxes.

Amortization of Intangibles

The costs of an election to levy taxes for the Medical Center's benefit have been capitalized and are being amortized over the life of the levy (10 years) beginning with the year ended June 30, 1997, the year during which the tax levy was approved.

Cash Equivalents

Cash and cash equivalents includes all unrestricted highly liquid deposits and debt instruments acquired with maturities of three months or less.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting and Statement No. 29, The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements and which were developed for business enterprises.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. See Note 14.

Note 2 - Organization and Operations

The Medical Center is located in Vivian, Louisiana and provides in-patient and out-patient acute and nonacute medical care, including emergency services, primarily to patients residing in the Vivian area. A significant portion of the Medical Center's revenues are from patients who are beneficiaries under the Medicare program. See Note 3.

The Medical Center is organized and operated as a hospital service district under Louisiana Revised Statutes, Chapter 10, Title 46 and is a component unit of the Caddo Parish Commission (the Commission). It has no component units in its operations. The Medical Center operates and is financially independent of the Commission.

Since the Medical Center is a component unit of the Commission it is considered part of the Commission and is included as such for financial reporting purposes. The governing authority of the Medical Center is a board of commissioners (the Board) consisting of nine and six voting members at June 30, 2002 and June 30, 2001, respectively. Effective August 15, 2001, the members are appointed by the Commission for four-year terms. Prior to August 15, 2001, the members were appointed by the Commission for six-year terms. The governing authority of the Medical Center board was established by an ordinance of the Commission.

The Medical Center was determined to be a component unit of the Commission due to its financial accountability to the Commission as follows:

The Commission has the ability to appoint or remove members of the Board at will.

The Commission requires the Board to advise them on problems concerning the operation of the Medical Center and other facilities.

The accompanying financial statements present information only on the sole fund maintained by the Medical Center and do not present information on the Commission.

Note 3 - Patient Revenues and Accounts Receivable

The Medical Center has agreements with third-party payors that provide for reimbursement to the Medical Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's established rates for services and amounts reimbursed by third-party payors.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 3 - Patient Revenues and Accounts Receivable (Continued)

Effective July 1, 2001, the Medical Center entered into the Medicare Critical Access Hospital (CAH) program. Under the CAH program, the Medical Center is reimbursed under a cost reimbursement method. Under the cost reimbursement method, the Medical Center is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary. Inpatient acute care services rendered to Medicare program beneficiaries are tentatively paid at a per diem rate. Under the per diem method, one established rate is used for all patient stays regardless of the magnitude or complexity of the services provided. Outpatient services are tentatively paid based on 46 percent of established charges.

Prior to July 1, 2001, under the Medicare program, inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that were based on clinical, diagnostic, and other factors. Prior to August 1, 2000, inpatient nonacute services, outpatient services, and defined capital and medical education costs related to Medicare beneficiaries were paid based upon a cost reimbursement method. Effective August 1, 2000, outpatient services were paid at prospectively determined rates per procedure. These rates varied according to an ambulatory classification system. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary.

For the years ended June 30, 2002 and June 30, 2001, the Medical Center received approximately 62 percent and 56 percent respectively, of its gross patient revenue (61 and 40 percent, respectively, of its net patient revenues) from Medicare beneficiaries. These revenues are subject to health insurance program fiscal intermediary review and retroactive adjustment. Cost reports for the years ended June 30, 2002, 2001 and 2000 are subject to examination. Provisions have been made for estimated settlements and adjustments.

Under the Louisiana Medicaid program, inpatient services are reimbursed at a per diem rate, and outpatient services are reimbursed under a cost reimbursement method. Under the cost reimbursement method, the Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicaid fiscal intermediary. Under the per diem method, one established rate is used for all patient stays regardless of the magnitude or complexity of the services provided. The Medical Center's Medicaid cost reports for the years ended June 30, 2002, 2001 and 2000, are subject to examination by the Medicaid fiscal intermediary. Provisions have been made for estimated settlements and adjustments.

The Medical Center has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations which result in contractual adjustments from established rates.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 3 - Patient Revenues and Accounts Receivable (Continued)

A summary of patient revenues for the years ended June 30, 2002 and June 30, 2001 follows:

	Year Ended June 30	
	<u>2002</u>	<u>2001</u>
Patient Revenues at Established Rates	\$ 9,597,559	\$ 8,574,788
Less-Provisions for Contractual Adjustments:		
Current Provisions	4,038,341	
Changes in Prior Estimates	(203,524)	3,853,167
Medicaid Disproportionate Share		
Payments Received	(367,126)	(239,649)
	<u>3,467,691</u>	<u>3,613,518</u>
Net Patient Revenues	\$ <u>6,129,868</u>	\$ <u>4,961,270</u>

The Medical Center qualifies for Medicaid "disproportionate share payments" under the 1997 Rural Hospital Preservation Act. Such payments are contingent on annual federal funding and recognized as decreases to contractual adjustments in the year received. See Note 18 concerning overpayments of disproportionate share payments.

The Medical Center grants credit without collateral to its patients, most of whom are from the Vivian, Louisiana vicinity. The mix of receivables from patients and third-party payors at June 30, 2002 and June 30, 2001 is as follows:

	At June 30	
	<u>2002</u>	<u>2001</u>
Medicare	26.42%	29.40%
Medicaid	13.78	5.20
Other Third-Party Payors and Patients	<u>59.80</u>	<u>65.40</u>
	<u>100.00%</u>	<u>100.00%</u>

Net accounts receivable from patient services is comprised as follows:

	At June 30	
	<u>2002</u>	<u>2001</u>
Gross Patient Accounts Receivable	\$ 2,397,678	\$ 2,544,055
Estimated Allowances for Bad Debts and		
Contractual Adjustments Under Third-		
Party Reimbursement Programs (Note 12)	(1,273,932)	(1,465,090)
Net Accounts Receivable from Patient		
Services	\$ <u>1,123,746</u>	\$ <u>1,078,965</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 4 - Cash and Certificates of Deposit

Louisiana law requires banks and savings and loan associations to secure a government's deposits (cash in banks) by pledging qualifying securities as collateral. For this purpose "cash in banks" is comprised of the account balances according to the banks' records which at June 30, 2002 are as follows:

	Citizens Bank & Trust	First Guaranty Bank
Cash in Banks	\$828,470	\$ 37,749
Insured by FDIC	\$100,000	\$100,000
Collateralization-Fair Market Value	\$975,488	\$ - 0 -
Uncollateralized	\$ - 0 -	\$ - 0 -

Collateral is held by the pledging financial institutions' trust department in the name of North Caddo Medical Center.

Note 5 - Depreciation

Depreciation expense and the estimated useful lives of the major categories of fixed assets are as follows:

	Year Ended June 30	
	2002	2001
Buildings and Building Improvements (10-40 years)	\$ 70,392	\$ 70,392
Equipment (4-25 years)	174,198	192,982
Land Improvements (8-20 years)	5,519	9,577
	<u>\$250,109</u>	<u>\$272,951</u>

Note 6 - Capital Leases

The Medical Center leases laboratory equipment under a capital lease which expired in the year 2002. The lease automatically transferred ownership of the laboratory equipment to the Medical Center at the end of the lease term.

During the year ended June 30, 1999, the Medical Center signed a capital lease for a new AS/400 computer system, which expires in the year 2003. The lease automatically transfers ownership of the equipment to the Medical Center at the end of the lease term.

The Medical Center leases a CT scanner and laser camera under capital leases which expire in the year 2003. The Medical Center may purchase the CT scanner and laser camera for \$1 each at the end of the lease.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 6 - Capital Leases (Continued)

Following is a summary of property held under capital leases:

	At June 30	
	<u>2002</u>	<u>2001</u>
Laboratory Equipment	\$	\$ 17,184
Computer Equipment	50,000	50,000
CT Scanner	186,680	186,680
Laser Camera	<u>54,600</u>	<u>54,600</u>
	291,280	308,464
<u>Less-Accumulated Depreciation</u>	<u>253,665</u>	<u>209,443</u>
	<u>\$ 37,615</u>	<u>\$ 99,021</u>

Minimum future lease payments under these leases are as follows:

<u>Year Ending June 30</u>	<u>CT Scanner</u>	<u>Laser Camera</u>	<u>Computer Equipment</u>	<u>Total</u>
2003	\$ 25,317	\$ 9,653	\$ 11,628	\$ 46,598
2004	<u>- 0 -</u>	<u>- 0 -</u>	<u>1,939</u>	<u>1,939</u>
	25,317	9,653	13,567	48,537
<u>Less-Amount Representing Interest</u>	<u>711</u>	<u>340</u>	<u>504</u>	<u>1,555</u>
Net Present Value of Minimum Lease Payments	<u>\$ 24,606</u>	<u>\$ 9,313</u>	<u>\$ 13,063</u>	<u>\$ 46,982</u>
Imputed Rate of Interest	9.05%	9.04%	6.10%	

Note 7 - Commitments and Contingent Liabilities

See Note 3 regarding contingencies concerning the Medical Center's Medicare and Medicaid cost reports.

See Note 6 concerning capital lease commitments.

See Note 8 concerning operating lease commitments.

See Note 14 regarding insurance contingencies.

See Note 15 regarding self-funded unemployment claims.

See Note 18 regarding overpaid Medicaid Disproportionate Share Payments.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTERNOTES TO FINANCIAL STATEMENTSNote 8 - Operating Leases

The Medical Center has entered into several operating leases for telephones, other equipment, and real estate. These operating leases range from one month to five years with expiration dates through June 2007. Rent expense under these leases for the years ended June 30, 2002 and June 30, 2001 is as follows:

	Year Ended June 30	
	<u>2002</u>	<u>2001</u>
Telephones	\$ 9,977	\$ 15,369
Other Equipment	46,908	23,709
Real Estate	<u>4,875</u>	<u>1,575</u>
	<u>\$ 61,760</u>	<u>\$ 40,653</u>

Minimum future rental payments under noncancelable operating leases are as follows:

<u>Year Ending June 30</u>	
2003	\$ 42,302
2004	32,350
2005	32,064
2006	30,668
2007	<u>14,036</u>
	<u>\$151,420</u>

Note 9 - Pension PlanPlan Description

The Medical Center contributes to the Parochial Employees' Retirement System of Louisiana, a Public Employee Retirement System (the Plan), that is a cost sharing multiple-employer plan established by the Louisiana legislature as of January 1, 1953, by Act 205 of 1952. The system was revised by Act No. 765 of 1979, effective January 1, 1980, to replace the "regular plan" with the Plan B Fund of which the Medical Center is a participant. Plan B provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Retirement System is governed by the Louisiana Revised Statutes, Title 11, Sections 1901 through 2015, specifically, and other general laws of the State of Louisiana.

The Parochial Employees' Retirement System of Louisiana, Inc. issues a publicly available financial statement report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing the Parochial Employees' Retirement System of Louisiana, Inc., Post Office Box 14619, Baton Rouge, Louisiana, 70898-4619.

Plan Funding

Employer and employee contributions to the Plan are established by state statute. For the years ended December 31, 2001 and December 31, 2000, Employee contributions are 2 percent of covered wages in excess of \$100 per month. Employer contributions are 2.75 percent and 2.5 percent, respectively, of covered wages for the years ended December 31, 2001 and December 31, 2000. In addition to the aforementioned contributions the tax collectors of various parishes contribute one fourth of one percent of all tax collections.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 9 - Pension Plan (Continued)

The Medical Center's contributions to the Plan for the most recent three years are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>	<u>Percentage of Required Amount</u>
2002	\$ 60,613	100%
2001	51,152	100%
2000	52,203	100%

Note 10- Property Tax Revenues

The Medical Center received \$132,120 and \$161,591 in property tax revenues for the years ended June 30, 2002 and June 30, 2001, respectively. This revenue is used primarily for establishing, maintaining and operating an ambulance service for the residents of the North Caddo Hospital Service District. Any revenues in excess of the ambulance service costs may be used for maintaining, operating, and improving the Medical Center.

The property tax is assessed on January 1, levied not later than June 1, due by December 31, and lien on January 1 (one year after the assessment date). The Caddo Parish Sheriff Department collects the taxes. The property tax revenues are summarized as follows:

	<u>Year Ended June 30</u>	
	<u>2002</u>	<u>2001</u>
Property Tax Assessment	\$ 162,972	\$ 173,506
Allowance for Uncollectible Assessments	(35,587)	(17,529)
Property Tax Collected	127,385	155,977
Adjustments, Interest and Prior Period Collections	4,735	5,614
Property Taxes Reported	\$ <u>132,120</u>	\$ <u>161,591</u>

The original ambulance service property tax levy expired in May 1997. A renewal vote to extend the tax levy for an additional ten years was held in March 1997 and was approved. The renewed tax levy will expire in May 2007.

Note 11- Advertising

Advertising costs for the years ended June 30, 2002 and June 30, 2001 are \$17,031 and \$15,574, respectively.

Note 12- Significant Estimates

As described at Note 3, estimated allowances from accounts receivable for bad debts and contractual discounts and settlements have been provided. Due to uncertainties inherent in the estimation of such allowances, it is at least reasonably possible that actual bad debts and contractual discounts and settlements that materialize in the near term could differ materially from the estimates.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 12- Significant Estimates (Continued)

As described at Note 14, the Medical Center participates in the Louisiana Hospital Association Malpractice Insurance Trust Fund and Workman's Compensation Group Self-Insurance Fund. Due to uncertainties inherent in the estimation of potential claims, it is at least reasonably possible that actual claims that materialize in the near term could differ materially from the estimates.

As described at Note 18, management has estimated amounts payable for cost reimbursements overpaid by Medicaid. Due to the highly complex rules of the Medicaid program, it is at least reasonably possible that the actual amounts repaid to the Medicaid program could differ materially from the estimates.

Note 13- Rental Income

The Medical Center leases office space in its Extended Services building to Willis-Knighton Medical Center under a month-to-month lease (the original three-year operating lease expired June 30, 2000). Rental income is presented in the statement of operations as nonoperating revenue. Rental income for each of the years ended June 30, 2002 and June 30, 2001 is \$9,600. See Note 16.

Note 14- Insurance

The Medical Center is a participant of the Louisiana Hospital Association Malpractice Insurance Trust Fund and Workmen's Compensation Group Self-Insurance Fund. These trust funds retrospectively set premiums for members based on the loss history of each entire group. The Medical Center expenses premiums paid to these multi-provider captive insurance companies over the policy periods covered.

According to the trust document for the Malpractice Insurance Trust (the Trust), participants are jointly and severally liable for the obligations of the Trust with the right of indemnity among the participants for each participant's pro rata share of the obligation as formulated in the trust document. Each participant has this contingent assessment liability for the payment of actual losses and expenses incurred while a participant in the Trust. This contingent liability is not to exceed the amount necessary to make up trust fund deficiencies in the trust fund year in which the obligations were incurred, and such liability is not to exceed an amount equal to the charges otherwise due by such participant during such plan year.

According to the trust document for the Workmen's Compensation Group Self-Insurance Fund (the Fund), participants are liable jointly and in solido for claims not paid pursuant to Subpart J of Part I of Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, with the right of indemnity among the participants for each participant's pro rata share of the obligation as formulated in the trust document. Each participant has this contingent assessment liability for the payment of actual losses and expenses incurred while a participant in the Fund, but only to the extent that such losses and expenses are not paid by the excess coverage secured by the Fund.

Under current Louisiana law, the Medical Center's liability for medical malpractice is statutorily limited to \$500,000 per claim. To cover this exposure, the Medical Center has obtained insurance coverage of \$100,000 per claim with the Louisiana Hospital Association Malpractice and General Liability Trust and an additional \$400,000 per claim with the State of Louisiana Patient's Compensation Fund.

Management does not believe that any significant contingent liabilities exist under these insurance arrangements.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 15- Self-Funded Unemployment Claims

The Medical Center became self-funded with respect to unemployment claims effective October 1, 1998. As a self-funded employer, the Medical Center must reimburse the Louisiana Department of Labor on a dollar-for-dollar basis for unemployment benefits paid to former employees. No claims were paid by the Louisiana Department of Labor on behalf of the Medical Center during the years ended June 30, 2002 and June 30, 2001.

The Medical Center signed a three-year contract with Temple Resource Management, Inc. (TRM) for claims management services at an annual cost of \$2,000. TRM evaluates all claims, recommends appropriate action for all notices the Medical Center receives from the Louisiana Department of Labor, and audits the experience rates and unemployment benefits charged to the Medical Center.

Management does not believe that any significant contingent liabilities exist under this arrangement at June 30, 2002.

Note 16- Related Party Transactions

On April 24, 2000 the Medical Center entered into a management contract with Willis-Knighton Medical Center (WKMC). Under this contract, WKMC has agreed to manage the operations of the Medical Center and to provide the Medical Center with a qualified administrator and business office manager. The administrator and business office manager are employees of WKMC and act on behalf of WKMC in the Medical Center's best interest. The contract is for three years and requires that the Medical Center reimburse WKMC for the salary and benefits of the Medical Center's administrator and business office manager.

The Medical Center received rental income from WKMC in the amount of \$9,600 for each of the years ended June 30, 2002 and June 30, 2001 for leased office space in its Extended Services building. See Note 13.

During the years ended June 30, 2002 and June 30, 2001, the Medical Center paid WKMC, \$232,439 and \$159,275, respectively, for the administrator's and business office manager's salary and benefits, office supplies, laundry services and various patient services.

At June 30, 2002 and June 30, 2001, the Medical Center owes WKMC \$32,878 and \$28,603, respectively, for various services and supplies, which is included in accounts payable.

Note 17- Concentrations

See Note 3 concerning revenues derived from patients who are beneficiaries under the Medicare program.

See Note 3 concerning significant financial resources provided from Medicaid Disproportionate Share Payments.

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

Note 18- Medicaid Disproportionate Share Payments

In December 2000, the Medical Center was notified by one of its consultants that the reports used to calculate the Medicaid unreimbursed costs (Medicaid Disproportionate Share Payments – Note 3) affecting the years ended June 30, 1998, 1999 and 2000 appear to have been miscalculated. Due to the highly complex and technical issues involved, the amounts of the overpayments owed to the Medicaid program are not readily determinable. Management estimates the total amount of the overpayments for the three years will range from \$600,000 to \$900,000 with the effects on each year being approximately equal. Management does not believe any amount within the range to be a better estimate than any other amount. In cases where only a range of a contingency can be reasonably estimated, and no amount within the range is better than any other amount, generally accepted accounting principles call for the accrual of the amount at the low end of the range. Accordingly, the Medical Center has accrued \$600,000 at June 30, 2000 for overpayments owed to the Medicaid program, which remains unchanged at June 30, 2002. Management anticipates that these amounts will be settled by March 2003.

COLE, EVANS & PETERSON

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September 11, 2002

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana

Our audits of the June 30, 2002 and June 30, 2001 financial statements of North Caddo Hospital Service District, d/b/a North Caddo Medical Center were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 through 5 which follow are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Cole, Evans & Peterson

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

REVENUE, DEDUCTIONS FROM REVENUE AND DIRECT DEPARTMENTAL EXPENSE

FOR THE YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001

	Year Ended June 30, 2002			Year Ended June 30, 2001		
	<u>Revenue</u>	<u>Expense</u>	<u>Net</u>	<u>Revenue</u>	<u>Expense</u>	<u>Net</u>
<u>Department:</u>						
Inpatient Routine Care	1,444,726	1,114,627	330,099	1,559,384	988,579	570,805
Radiology	464,534	158,398	306,136	392,162	128,323	263,839
Pharmacy	906,564	402,218	504,346	931,375	298,708	632,667
Laboratory	1,632,694	429,367	1,203,327	1,266,072	336,202	929,870
Operating and Recovery	139,791	52,796	86,995	160,683	37,637	123,046
Emergency Room	1,493,969	551,877	942,092	994,973	494,716	500,257
Cardiac Care (Monitor)	92		92	44,244	6,098	38,146
Anesthesiology	260	165,405	(165,145)	8,769	143,620	(134,851)
Inhalation Therapy	1,585,246	152,303	1,432,943	1,219,261	159,018	1,060,243
Central Supply	28,474	109,501	(81,027)	347,722	86,695	261,027
Physical Therapy	2,616	1,015	1,601	12,070	4,295	7,775
CT Scanner	819,034	110,738	708,296	715,710	106,093	609,617
Nuclear Medicine				17,330	10,204	7,126
Cardiology	359,143	100	359,043	266,771	5,996	260,775
Kid-Med	53,811	56,923	(3,112)	40,670	48,622	(7,952)
Social Services					5	(5)
Treatment Room	165,000	16,416	148,584	208,125	21,378	186,747
Ambulance	290,712	241,981	48,731	258,278	220,086	38,192
Obstetrics	124,933	30,109	94,824	85,963	59,675	26,288
Pain Management		4	(4)	31	19	12
Ultrasound	13,020	4,940	8,080	14,542	4,641	9,901
Health Unit	72,190	123,723	(51,533)	30,653	57,861	(27,208)
Fitness Center		400	(400)			
Industrial Medicine	750		750			
Totals	9,597,559	3,722,841	5,874,718	8,574,788	3,218,471	5,356,317
<u>Deductions from Revenues:</u>						
Medicare and Medicaid Discounts	(3,283,884)			(3,558,754)		
Medicaid Disproportionate						
Share Payments Received	367,126			239,649		
Other Contractual Adjustments	(550,933)			(294,413)		
Net Deductions	(3,467,691)			(3,613,518)		
Net Patient Revenues	6,129,868			4,961,270		

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTERGENERAL AND ADMINISTRATIVE EXPENSESFOR THE YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001

	Year Ended June 30	
	<u>2002</u>	<u>2001</u>
General and Administrative Salaries	320,050	254,061
Auditing Fees	19,200	17,000
Legal Fees	2,379	2,126
Cost Report Preparation and Consulting	26,121	27,912
Telephone	20,147	25,550
Insurance	89,841	70,169
Employee Benefits and Payroll Taxes	541,547	401,461
Supplies and Other	<u>303,586</u>	<u>176,109</u>
	<u>1,322,871</u>	<u>974,388</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER
COMPENSATION PAID TO MEMBERS OF THE BOARD OF COMMISSIONERS
FOR THE YEAR ENDED JUNE 30, 2002

<u>Compensation (including per diem)</u> <u>Paid to Board Members:</u>	<u>Paid Board</u> <u>Meetings Attended</u>	<u>Compensation</u>
Earl G. Williamson, Jr.	11	1,100
Kenneth D. Clay	12	1,200
Robert Guth	12	1,200
Helen Adger	11	1,100
Mary Jane Dominick	12	1,200
Scott Welch	11	1,100
Robert Green (Appointed September 6, 2002)	10	1,000
Mary Irvin (Appointed September 6, 2002)	9	900
Brenda Smith (Appointed September 6, 2002)	<u>9</u>	<u>900</u>
	<u>97</u>	<u>9,700</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTERSUMMARY OF OPERATING RESULTS

	Year ended June 30				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Total Gross Revenue	9,769,285	8,807,754	8,893,961	8,869,112	7,653,223
Discounts and Bad Debts	4,286,191	4,201,292	4,123,038	4,250,930	3,682,442
Cost and Expenses	<u>5,771,242</u>	<u>4,869,129</u>	<u>4,889,776</u>	<u>4,675,775</u>	<u>4,268,652</u>
Net (Loss)	(<u>288,148</u>)	(<u>262,667</u>)	(<u>118,853</u>)	(<u>57,593</u>)	(<u>297,871</u>)
Total Hospital Patient Days	2,746	2,966	2,768	2,964	2,708
Admissions	865	836	711	724	692
Inpatient Revenue per Patient Day	2,048	1,788	1,889	1,849	1,903
Inpatient Revenue as a Percent of Total Patient Revenue	58.58%	61.84%	62.60%	63.97%	69.41%
Net (Loss) per Patient Day	(104.93)	(88.49)	(42.94)	(19.43)	(110.00)
Net (Loss) as a Percent of Gross Patient Revenues	(3.00)%	(3.06)%	(1.42)%	(.67)%	(4.01)%
Number of Days Net Patient Revenues in Net Patient Receivables	66.91	79.38	71.05	70.96	68.05
Number of Days Net Patient Revenues (Without Medicaid Disproportionate Share Payment) in Net Patient Receivables	71.18	83.41	74.34	74.59	72.21
Average Length of Patient Stay in Days	3.17	3.55	3.89	4.09	3.91

NORTH CADDO HOSPITAL SERVICE DISTRICT, d/b/a NORTH CADDO MEDICAL CENTER

FIXED ASSETS AND ACCUMULATED DEPRECIATION

FOR THE YEAR ENDED JUNE 30, 2002

	ASSETS			ACCUMULATED DEPRECIATION			
	Balance 6-30-01	Additions	Deductions	Balance 6-30-02	Balance 6-30-02	Deductions	Book Value 6-30-02
Land	95,367	15,876		111,243			111,243
Land Improvements	173,837			173,837	122,995		50,842
Buildings and Building Improvements	1,903,070			1,903,070	1,157,120		745,950
Equipment	2,069,681	234,843	54,766	2,249,758	1,715,399	54,766	534,359
Equipment Under Capital Leases	308,464		17,184	291,280	253,665	17,184	37,615
	<u>4,550,419</u>	<u>250,719</u>	<u>71,950</u>	<u>4,729,188</u>	<u>3,249,179</u>	<u>71,950</u>	<u>1,480,009</u>

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September 11, 2002

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana

We have audited the financial statements of North Caddo Hospital Service District, d/b/a North Caddo Medical Center at and for the year ended June 30, 2002 and have issued our report thereon dated September 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether North Caddo Hospital Service District, d/b/a North Caddo Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as Finding 02-1.

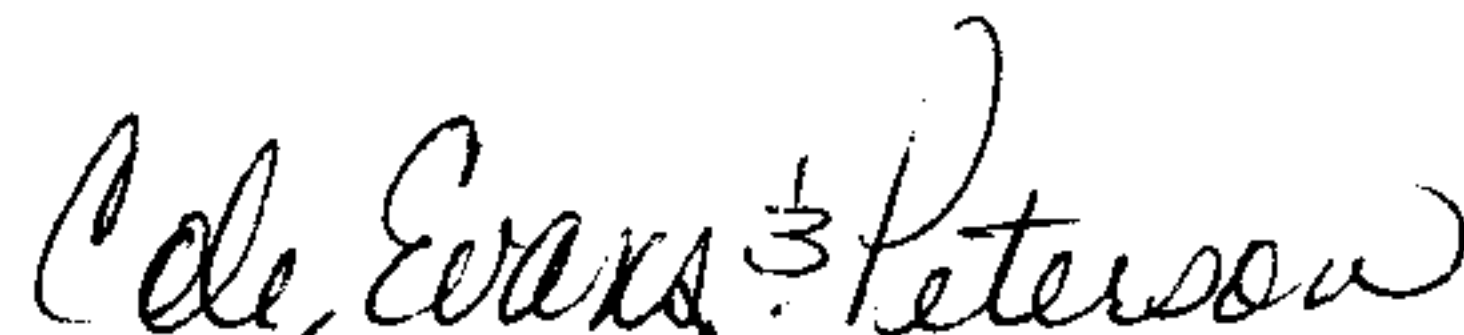
Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Caddo Hospital Service District, d/b/a North Caddo Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reports would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Medical Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 02-2 through 02-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Caddo Parish Commission, Board of Commissioners, management, and others within the organization and the Office of the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.


Cole, Evans & Peterson

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September 11, 2002

INDEPENDENT AUDITORS' SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2002

We have audited the financial statements of North Caddo Hospital Service District, d/b/a North Caddo Medical Center at and for the year ended June 30, 2002, and have issued our report thereon dated September 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 30, 2002 resulted in an unqualified opinion.

Section 1 - Summary of Auditors' Report

a. Report of Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses - No

Reportable Conditions - Yes

Compliance

Compliance Material to the Financial Statements - Yes

b. Management Letter

Management letter issued - No

Section 2 - Financial Statement Findings

FINDING 02-1 - Telephone Equipment Acquired in Excess of \$15,000 Without Letting for Public Bid

Requirement - La. Rev. Stat. 38:2212 (A)(1)(a)(i) - All public work exceeding the contract limit as defined herein, including labor and materials, and all purchases of any materials or supplies exceeding the sum of fifteen thousand dollars to be paid out of public funds, to be done by a public entity shall be advertised and let by contract to the lowest responsible bidder who had bid according to the contract, plans and specifications as advertised, and no such public work shall be done and no such purchase shall be made except as provided in this Part.

Condition - The Medical Center acquired a telephone system during the year ending June 30, 2002 without letting for public bid.

Questioned Cost - The cost of the above-mentioned equipment was \$16,410.

Cause - The Medical Center acquired the telephone system that it had been leasing at the expiration of the 60-month lease.

Recommendation - This occurrence appears to be isolated. Corrective action is not practicable.

Management's Response - The Medical Center acquired the telephone equipment that it had installed and had been leasing for the past five years. Acquiring this equipment would cause less disruption to the operation of the Medical Center and would be far less costly in both time and money than purchasing an entirely different system.

FINDING 02-2 - Reconciliation of accounts receivable and accounts payable subsidiary ledgers to general ledger accounts are not completed on a monthly basis.

Requirement - A reconciliation of the accounts receivable and accounts payable subsidiary ledgers should be reconciled to the related general ledger accounts every month.

Condition - Monthly reconciliations of the subsidiary ledgers to the respective general ledger accounts were not performed.

Cause - The Medical Center's recently hired business office manager did not prepare the required reconciliations.

Recommendation - Management should insure that someone is assigned the responsibility of reviewing the reconciliations for completeness every month.

Management's Response - Management intends to implement the immediately preceding recommendation.

FINDING 02-3 - Bank reconciliations are not completed on a monthly basis.

Requirement - A reconciliation of the bank statement to the general ledger should be performed every month.

Condition - Monthly reconciliations of operating bank account and payroll bank accounts to the general ledger were not performed.

Cause - The Medical Center's recently hired business office manager did not prepare the required reconciliations.

Recommendation - Management should insure that someone is assigned the responsibility of reviewing the reconciliations for completeness every month.

Management's Response - Management intends to implement the immediately preceding recommendation.

FINDING 02-4 - Reconciliation of the patient charges and cash receipts to the accounts receivable subsidiary ledger were not completed.

Requirement - A reconciliation of the daily activity, patient charges and cash receipts, should be made to the accounts receivable subsidiary ledger.

Condition - Daily reconciliations of patient charges and cash receipts to the accounts receivable subsidiary ledger were not performed.

Cause - The Medical Center's recently hired business office manager did not prepare the required reconciliations.

Recommendation - Management should insure that someone is assigned the responsibility of reviewing the reconciliations for completeness every month.

Management's Response - Management intends to implement the immediately preceding recommendation.

FINDING 02-5 - The general ledger, detailed accounts receivable subsidiary ledger, and the detailed accounts payable subsidiary ledgers were not printed and filed on a monthly basis.

Requirement - Monthly general ledgers, detailed accounts receivable subsidiary ledgers, and detailed accounts payable subsidiary ledgers should be printed and filed.

Condition - Monthly ledgers were not printed and filed.

Cause - The Medical Center's recently hired business office manager did not print or file the monthly ledgers.

FINDING 02-5 - The general ledger, detailed accounts receivable subsidiary ledger, and the detailed accounts payable subsidiary ledgers were not printed and maintained on a monthly basis (Continued)

Recommendation - Management should insure that someone is assigned the responsibility of reviewing the printouts for completeness every month.

Management's Response - Management intends to implement the immediately preceding recommendation.

FINDING 02-6 - Signature stamps were improperly used.

Requirement - Signature stamps should remain in the possession of and used by the owner of the signature.

Condition - A signature stamp was improperly used, with the consent of the signature owner, to sign checks that require two authorized signatures.

Cause - The Medical Center's office manager and administrator acquired signature stamps during the year. The Medical Center's administrator gave his signature stamp to the office manager and allowed her to use it to sign his signature on checks that required two authorized signatures.

Recommendation - Management should not allow the use of signature stamps.

Management's Response - The administrator has been terminated and signature stamps will no longer be allowed.

FINDING 02-7 - Petty cash reimbursements and travel expenditures are not adequately documented.

Requirement - Documentation for petty cash reimbursements and travel expenditures should include evidence of approval and a description of the purpose for the payment.

Condition - Receipts for petty cash reimbursements and travel expenditures are usually required, however, evidence of approval and the purpose of the expense is often not adequately documented.

Cause - The Medical Center's employees usually present to the clerks a receipt for an expenditure and orally explain the purpose of the expenditure to get reimbursed for the expense.

Recommendation - Written documentation explaining the purpose of the expenditure, along with the signature of the appropriate authorized person approving the expenditure, should be obtained before the item is reimbursed.

Management's Response - Management has put into place procedures that will only allow the reimbursement of properly documented expenditures.

FINDING 02-8 - Payroll tax deposits were not paid on a timely basis

Requirement - Payroll tax deposits, both federal and state, must be made on a timely basis or be subject to interest and penalties.

Condition - Payroll tax deposits were not properly paid by the payment due dates.

Cause - The Medical Center transferred the payroll preparation responsibilities to the office manager in April 2002. The office manager did not make the payroll tax deposits within the required due dates.

Recommendation - All of the required payroll tax deposits should be made on the same day the payroll is paid.

Management's Response - Management intends to implement the immediately preceding recommendation.

FINDING 02-9 - IRS Forms 1099-Misc, Miscellaneous Income, were not completely prepared

Requirement - IRS Forms 1099-Misc are required to be filed for all payments made during a calendar year in excess of \$600 for services performed by non-corporate entities and individuals.

Condition - Forms 1099-Misc were not prepared or filed for several entities and individuals who received payments in excess of \$600 for services performed during 2001.

Cause - The Medical Center's recently hired business office manager did not prepare all the required Forms 1099-Misc.

Recommendation - Prepare and file with the IRS any Form 1099-Misc that was not properly filed for 2001. Management should insure that someone is assigned the responsibility for reviewing the preparation of the Forms 1099-Misc for completeness every year.

Management's Response - Management intends to implement the immediately preceding recommendation.

FINDING 02-10 - Selection of accounts receivable for transfer to the bad debt category is not being approved

Requirement - Accounts selected for transfer to bad debts should be reviewed and approved by another person or persons not otherwise involved in that process.

Condition - The Medical Center's collection manager reviews patient accounts receivable and transfers those accounts that meet a certain set of criteria to the bad debts category.

Cause - The accounts that have been selected for transfer to the bad debts category have not been reviewed or approved by another person.

Recommendation - A procedure should be established that accounts cannot be transferred into the bad debts category unless they have been approved by another person or persons not otherwise involved in that process.

Management's Response - Management intends to implement the immediately preceding recommendation.

Section 3 - Federal Award Findings and Questioned Costs

N/A

NORTH CADDO HOSPITAL SERVICE DISTRICT d/b/a NORTH CADDO MEDICAL CENTER

MANAGEMENT'S SCHEDULE OF PRIOR YEAR FINDINGS
(Findings Prior to the Year Ended June 30, 2002)

Section 1 - Internal Control and Compliance Material to the Financial Statements

There were no findings for the prior year.

Section 2 - Internal Control and Compliance Material to Federal Awards

N/A

Section 3 - Management Letter

There were no findings for the prior year.